

86th Legislative Session – 2011

Committee: Joint Appropriations

Tuesday, February 08, 2011

P - Present
E - Excused
A - Absent

Roll Call

P Sutton
P Haverly
P Heineman
P Novstrup (Al)
P Peters
P Putnam
P Rampelberg
P Dennert
P Wismer
P Juhnke
P Bolin
P Romkema
P Dryden
P White
P Tidemann
P Carson
P Brown, Vice-Chair
P Wink, Chair

OTHERS PRESENT: See Original Minutes

The meeting was called to order by Representative Dean Wink.

Bureau of Finance & Management

Jason Dilges, Commissioner of the Bureau of Finance & Management (BFM) appeared before the Appropriations Committee to present the FY12 budget request. Document No. 1 was distributed.

The Bureau's FY12 budget request consists of \$7,424,445 in General funds and \$6,530,770 in other funds for a total of \$13,955,215.

Major changes to the Bureau's budget:

- A reduction of \$622,185 in General funds in the Sale/Leaseback Program and a likewise reduction in General fund revenue. The annuity flows into the General fund and payments are made from General fund as well.
- A reduction of \$88,000 in General funds in contractual services involving a reduction in economic analysis (travel and economists) as well as space and internal billings.
- A reduction in General funds involving the Commissioner's personal salary and benefits.
- A reduction of \$16 million in federal fund expenditure authority. BFM was the clearing house for federal stimulus funds regarding energy efficiencies. All of that money has been distributed to the agencies so BFM no longer needs that federal spending authority.
- A reduction in the financial systems area of approximately \$360,000 in other fund authority. The Governor challenged the Bureaus to reduce the internal service charges placed on other agencies. This reduction may mean less support, less programming hours, less reactive to requests.

Commissioner Dilges told the Committee the Building Authority and Health and Ed Authority lie within BFM for reporting purposes only. Those Authorities were asked to participate in the 10% reductions and are currently working on those reductions. The exact dollars will be forthcoming.

The Sale/Leaseback Program was excluded from the 10% reduction because it is a "must do"; however the Bureau also did not credit the \$622,185 in their reductions. Senator Novstrup asked how South Dakota's sale/leaseback program differs from other states. Commissioner Dilges said the program started in 1986 when a number of state buildings were sold and leased back. Then they positively arbitrated to come up with cash to take care of maintenance and repair needs. In 1996 the leases were refinanced and took another source of cash for maintenance and repair. However, because the IRS has closed the loop holes, the states are now prohibited from doing this. Commissioner Dilges doesn't believe other states have done the leaseback.

Representative White asked for the maturity of the lease. Commissioner Dilges said the sale/leaseback in the Bureau of Administration will expire in 2016 and the regular sale/leaseback in 2013. All present value has been taken out and spent on maintenance and repair; so the

revenue coming in from the annuity matches the outflow to pay for the leaseback. No residual is expected.

Senator Putnam commented on the reduction regarding Councils on Economic Advisors. Commissioner Dilges said meetings involving appropriators and staff will still be held. BFM has 2 contracts, one involving state leaders that meet quarterly and a USD professor that is available to the Bureau. The second contract is with Global Insight for the econometric model the Bureau uses. This contract is maintained on a quarterly basis. The Bureau's use of these contracts will be less in the coming year. Commissioner Dilges said while the Bureau needs to be sure the data reported to the Governor and the Legislature is the best it can be; a lot of this work will be done in-house. Senator Novstrup said while he understands the reason for the reductions, the information from the economist was very helpful and asked that the Appropriation's Committee be informed on what is happening with the economy.

Senator Tidemann asked how extensive the ARRA reporting would be. Commissioner Dilges said the annual report is due soon and a report is due at the end of each grant. The requirements of Stimulus 3 are similar to that of Stimulus 2. The Bureau has proposed legislation that will extend the time frame for transfers and carry-overs of ARRA funding. The Bureau needs to continue that process through 2016 for the last ARRA grant. Stimulus 3 reporting requirements will also require that action. All of the information reported by BFM is available to the public on opensd.gov as well as the national website. Commissioner Dilges said the Bureau will be reporting on ARRA for another 4-5 years and reminded the Committee the Bureau did not receive extra funding or FTE to perform this reporting activity.

Senator Heineman asked what the Bureau was working on in the technology area. Commissioner Dilges said 9 years ago the Bureau instituted a new payroll system. Because of the expense, upgrades to the payroll system may need to be delayed. The current budget system is approaching 15 years of age and will not be sustainable in 3 or 4 years. The system was built by the Bureau, and while it is supported, that support is going away. The current accounting system (mainframe) is 25 years old. The Bureau has upgraded the system, making it Window friendly, and uses other technology to keep the mainframe system working. However, it is becoming expensive to maintain. The Bureau has already changed hosting contracts for the central payroll/HRIS and the document imaging system used primarily with the HRIS to reduce expenses. Commissioner Dilges said if the Bureau would go to a new accounting system, it would cost approximately \$20-25 million with an 18-36 month implementation. A central accounting system is good because everyone is using the same system. Continuity is lost when there is more than one system.

Office of the Governor

Marty Davis, Financial Officer for the Office of the Governor presented the budget. Documents 2 and 3 were distributed.

Ms. Davis explained the following budget revisions:

- A reduction of \$140,669 in General funds in Personal Services is a result of the new administration's salaries being paid at a lesser compensation level.
- A reduction of \$58,658 in General funds in Operating Expenses by eliminating co-sponsorship for the International Legislators Forum, a reduction in travel, and other day-to-day operating expenses.
- A reduction of \$25,000 in General funds in the Governor's Contingency Fund.
- A reduction of \$12,620 in General funds in Space Billing and Internal Service.
- An increase of \$24,685 in federal expenditure authority for a Health Insurance Exchange project.

Ms. Davis told the Committee the state had received a federal grant from the US Department of Health & Human Services that would cover the costs of exploring the infrastructure, staffing, information systems and financial systems needed to operate a state-based exchange. The details of this grant are being worked out and will involve several state agencies.

Senator Haverly asked for clarification on the eliminated position, but the FTE retained. Ms. Davis said the eliminated position was a part-time (0.5 FTE) secretarial position. Because the Lt. Governor will be a full-time employee, the Governor's Office will use the 0.5 FTE to provide a full FTE for the Lt. Governor's position. Senator Haverly asked if funding from the eliminated position is also being used for the Lt. Governor's salary. Ms. Davis said yes. Senator Haverly asked if the salary will continue to be split. Ms. Davis said the Governor's Office left the budget unit intact because the salary from the Lt. Governor's Office is the salary paid for presiding over the Senate.

Senator Rampelberg commented on the use of the state plane and felt its use was important in the Governor's economic development campaign. Ms. Davis told the Committee that if the Governor's involvement with economic development will come from Economic Development. Questioned Governor Rounds involvement with the National Guard and again Marty said his expenses would be billed to that agency.

Department of Tribal Relations

The Department of Tribal Relations is without a Cabinet secretary so the budget was presented by Marty Davis. The FY12 budget request is \$224,644 in General funds.

This is a new department which was created by Governor Daugaard's Executive Reorganization Order No. 2011-01. Prior to this reorganization order, the Office of Tribal Government Relations was within the Department of Tourism and State Development.

The Governor recommends a decrease in general fund expenditure authority of \$673 for contractual services regarding space billings and other central service billings.

Governor's Office of Economic Development

For FY2012, the Governor recommends a total budget for the agency (including South Dakota Housing Development Authority, Science and Technology Authority, and South Dakota Ellsworth Development Authority) of \$48,405,807; comprised of \$6,160,184 in general funds, \$13,544,366 in federal fund expenditure authority, and \$28,701,257 in other fund expenditure authority; and 115.1 FTEs. This is a total decrease of \$19,465,283 (28.7%) from the FY2011 budget, with decreases of \$324,266 (5.0%) in general funds, \$8,055,635 (37.3%) in federal fund expenditure authority, and \$11,085,382 (27.9%) in other fund expenditure authority; and 65.2 FTEs

South Dakota Housing Development Authority

Mr. Mark Lauseng, Director of the South Dakota Housing and Development Authority (SDHDA), distributed a document outlining the FY11 budget request. (**Document #4**) He told the committee that SDHDA was established in 1973 as a public corporation to encourage the investment of private capital in affordable housing. One method used in raising this capital was through the sale of tax exempt bonds sold to the private market.

For FY2012, the Governor recommends a budget of \$9,961,306; comprised of \$2,101,230 in federal funding expenditure authority and \$7,860,076 in other fund expenditure authority; and 65.0 FTEs.

First-time Homebuyer Program

One of the largest and most recognized program is the First-time Homebuyer Program. Since the program started, a total of 72,804 loans in the amount of \$4.6 billion have been purchased. In FY10, SDHDA purchased 2,328 homebuyer loans for over \$251 million. In spite of the housing crisis the Nation has seen, SDHDA has continued to see a high demand in the Homeownership Program in FY2010. Part of that demand was the result of the First-time Homebuyer Federal Tax Credit. The time period for taking this credit ended in mid 2010 and SDHDA has seen a reduction in demand for the program as many first-time homebuyers took advantage of the tax credit. SDHDA anticipates the demand to increase as the economy improves.

Housing Tax Credits

The Housing Tax Credit program was created under the Internal Revenue Service that was established in 1987. Since created, the program has had a total of \$538 million in development costs in over 7,700 units across the State.

The Home Program

The HOME Program is a housing program funded through the US Department of Housing and Urban Development. Since 1992, the program has had a total of \$242 million in development costs in over 1,600 units.

Neighborhood Stabilization Program

Through the federal stimulus funding, SDHDA has received funding for several different programs. A total of \$19.6 million was received for the Neighborhood Stabilization Program. The purpose of this program was to revitalize neighborhoods that have been impacted by foreclosures or areas that are blighted. All of the \$19.6 million has been committed, with over \$9.8 million being disbursed. South Dakota has also received another \$5 million allocation in NSP 3 funds and are in the process of completing the plan so that the funds can be applied for and awarded.

Tax Credit Assistance Program/Tax Credit Exchange Program

South Dakota projects received a total of \$5.4 million in Tax Credit Assistance and exchanged tax credits for a total of \$7.7 million. Over \$4 million of both the Tax Credit Assistance and the Tax Credit Exchange funds have been expended.

Homeless Prevention and Rapid Re-housing

South Dakota received a total of \$3.2 million in Homeless Prevention and Rapid Re-Housing funds. The funds have been allocated to nine different agencies across the state. \$1.2 million of the Homeless Prevention and Rapid Re-Housing funds have been expended.

Governor's House Program

A total of 94 homes were sold in calendar year 2010, 101 homes were delivered and 113 homes were completed.

Mr. Lauseng explained SDHDA priorities. Some of the priorities include:

- To continue the First-time Homebuyer Program at a competitive rate. Through calendar year 2011, SDHDA will continue to take advantage of the New Issue Bond Program. This program has Treasury purchasing \$192 million of the long term bonds for the First-time Homebuyer Program. This will create a low competitive interest rate for the Homeownership loans. The current 30 year rate for the First-time Homebuyer Program is 3.75%.
- To preserve rent-subsidized multifamily units. Many of these projects are getting to be 30 years old and have much needed maintenance and upgrading. In addition, SDHDA would like to retain the housing assistance payment contracts with Housing and Urban Development as long as possible.

Senator Deb Peters asked about the funding swaps from other funds to federal funds in the recommended budget for FY2012. Mr. Lauseng stated that the SDHDA is receiving more federal stimulus funds for the administration. The other is a correction from previous years. Since SDHDA is not fully on the state budget system, the changes are a reflection of SDHDA changes to automatic changes that the Bureau of Finance and Management made on the system.

Senator Jeffrey Haverly asked about the federal funds in personal services. Mr. Lauseng responded that the federal funds were the increase for the stimulus funds.

Representative Jim Bolin asked if SDHDA anticipates an reduction in federal funds for the program in the next couple years. Mr. Lauseng said that excluding the stimulus funds, there have been discussions on the federal level about decreasing funding levels. However, this is not definite.

In response to Senator Phyllis Heineman's question, Mr. Lauseng stated that the other funds are generated through fees or sales of governor houses.

Mr. Lauseng said, in response to Senator Heineman's question, that when the stimulus funds are removed from the budget, SDHDA will have to revert back to using other funds. However, if the program is eliminated, the SDHDA would not maintain the positions.

South Dakota Science and Technology Authority

Mr. Ron Wheeler, Executive Director of the Sanford Underground Laboratory, provided an update on the South Dakota Science and Technology Authority (SDSTA) at the old Homestake Mine. He said that most of the state appropriation for the SDSTA is being removed for FY2012.

For FY2012, the Governor recommends a budget of \$8,960,000 in other fund expenditure authority and 5.0 FTEs. This is a decrease of \$10,639,023 (54.3%) in other fund expenditure authority and a decrease of 65.0 FTEs from the FY2011 budget.

On July 10, 2007, the Governor announced that the National Science Foundation (NSF) had selected the former Homestake mine as the site to be developed as the proposed Deep Underground Science and Engineering Laboratory (DUSEL). The NSF has indicated their intention to provide \$5 million a year for 3 years to develop a more specific technical design for the laboratory. The NSF committed another \$29.1 million for a preliminary design of the DUSEL.

In 2010 as part of the General Appropriations Act for FY2011, \$5.4 million was authorized to be transferred from other state funds to the Science and Technology Authority to bridge the anticipated gap in funding needed from December 2010 to May 2011. \$1.5 million from the state aeronautics fund, \$1 million from the tax relief fund, \$2 million from the petroleum release

compensation fund, \$400,000 from the private activity bond fees fund, and \$500,000 from the telecommunications fund for the deaf and the telecommunications fund for other disabilities.

To date the authority has received \$41.0 million in total general fund and other state funds since its inception. On December 2, 2010, The National Science Board (NSB) — which must approve large outlays by the NSF — decided to refuse 'bridge funding' of \$29 million. NSF program managers had requested the amount to allow continued development of a design proposal that would in turn be voted on in 2011.

Mr. Wheeler believes that the NSF was concerned about the Homestake mine location from the beginning of the process, but the Department of Energy (DOE) wanted the facility. Since the NSF did not approve funding in December, the DOE has a legitimate interest and is looking at taking over long-term funding of DUSEL. However, DOE will need the NSF assistance in providing long-term funding for the lab. A four person committee was appointed by the DOE to review the process and to report by May 2011.

Mr. Wheeler explained that the federal fiscal year runs October 1 through September 30, therefore, there is a funding problem for DUSEL from July 1, 2011 to October 1, 2011. However, Mr. Wheeler emphasized that South Dakota citizens cannot support a lab of this magnitude, and therefore the SDSTA is not requesting any additional state general funds for the continuance of the lab.

Senator Putnam asked what the NSF saw as unsafe at the Homestake mine. Mr. Wheeler stated that Homestake has a good safety record, but based on national standards, the safety is poor. He said most of the safety issues pertain to the aging infrastructure. Most of the steel in the mine is original from when built in the 1930's and needs to be replaced due to concerns about the mine shafts collapsing.

South Dakota Ellsworth Development Authority

Mr. Mark Merchant, Executive Director of the South Dakota Ellsworth Development Authority (SDEDA), distributed two handouts – (Document #5 and #6)

For FY2012, the Governor recommends a budget of \$375,000; comprised of \$175,000 in federal fund expenditure authority and \$200,000 in other fund expenditure authority; and 2.5 FTEs. The budget recommendation is the same as the FY2011 budget.

There has been tremendous partnership between the private sector, the local communities, the federal government, and the state to advance an entrepreneurial endeavor. By the end of FY2011, the SDEDA will have brought nearly \$31 million in resources to this mission. One is an \$18 million application to build a regional waste water treatment plant that will address new EPA standards that are not being met with current systems.

Ellsworth Air Force Base has given to the SDEDA over 170 acres of land valued around \$5 million. This land donation is to be used for creating a school for the Douglas School system and to build a new city center outside the main gate. The Governor's Office of Economic Development has targeted 120 acres.

Mr. Merchant said that up to this point, \$100,000 in general funds has been used for a \$100,000 match provided by the Department of Environment and Natural Resources to perform the feasibility study for the waste water treatment plant.

The SDEDA is an important area of critical state concern. The SDEDA was started by using three different grants from the Office of Economic Adjustment.

Mr. Merchant commented that SDEDA does not have any general funds and the federal funds used for operations from grants offered by the Office of Economic Adjustment – planning grant and a \$473,000 federal implementation grant. The SDEDA has a significant amount of private donations totaling over \$300,000. Of that \$50,000 was acknowledged by the Office of Economic Adjustment for the match to receive the \$473,000 implementation grant.

In the future, when economic times are better, SDEDA will be asking for general funds to help invest in the mission and help grow the economy.

In response to Senator Putnam's question, Mr. Merchant stated that pipeline from Elk Vale to the regional water system was installed by USDA loan. The plan for the regional waste water treatment plant is for SDEDA to borrow funds to acquire the interceptor line (the main line running from Elk Vale to the lagoon). SDEDA will also be building an intercepting line from Ellsworth Air Force Base waste water treatment plant to intersect with the line. SDEDA will own the transmission corridor for sewage, which will be delivered to a regional 3 million gallon per day plant. SDEDA will also have two customers – municipal and industrial. The City of Box Elder will pay SDEDA for bulk sewage treatment, and use as part of their cost as they bill their tenants.

Governor's Office of Economic Development

Mr. Pat Costello, Commissioner of the Governor's Office of Economic Development (GOED), distributed a document that outlines that agencies FY2012 budget recommendation. (**Document #7**)

The Governor recommends, for the GOED in FY2012, a budget of \$25,206,202; comprised of \$2,313,765 in general funds, \$11,268,136 in federal fund expenditure authority, and \$11,624,301 in other fund expenditure authority; and 40.6 FTEs. This is a total decrease of \$8,630,100 (25.5%) from the FY2011 budget, with decreases of \$128,106 (5.2%) in general funds,

\$8,500,669 (43.0%) in federal fund expenditure authority, and \$1,325 in other fund expenditure authority; and 0.2 FTE.

Mr. Costello commented that the biggest budget change for FY2012 is the elimination of \$8.5 million in federal stimulus funds for the energy conservation grant. The grant ended in December 2010, and therefore GOED will not need the federal fund authority in the next fiscal year. Other FY2012 budget changes include:

- A decrease in general fund expenditure authority of \$113,813 for personal services and 2.2 FTEs regarding shared creative division positions by changing the funding distribution percentage based on needed services with the Department of Tourism;
- A decrease in general fund expenditure authority of \$148,115 for personal services regarding the required match for the Community Development Block Grants that will be provided by other resources in FY2012;
- An increase in general fund expenditure authority of \$126,040 for personal services and 2.0 FTEs regarding the hiring of business development representatives;
- A decrease in general fund expenditure authority of \$22,410 for personal services regarding the commissioner's salary;
- An increase of \$51,416 in general funds for travel regarding in-state travel (\$22,935) and out-of-state travel (\$28,481) for the two business development representatives and regarding the required match for the Community Development Block Grant will be provided by other resources in FY2012;
- A total reduction of \$15,117 in general funds for contractual services. This involves a decrease of \$35,117 for marketing and the required match for the Community Development Block Grant that will be provided by other resources. The Governor is recommending an increase in other contractual services of 20,000 for the two business development positions; and
- A decrease in general fund expenditure authority of \$6,107, in federal fund expenditure authority of \$669, and in other fund expenditure authority of \$1,325 for contractual services regarding state computer services, central services, and space billings.

Mr. Costello stated that the general fund budget reduction to Research and Commerce will result in some of the five current research centers receiving funding and a delay in the start of the next research center.

Senator Peters requested that GOED provide detailed budget information for each research center.

Mr. Costello responded to the Joint Appropriations Committee questions that were sent to the agency prior to session. He said that GOED will not be eliminating any programs for FY2012. The areas that will be changed include – adjusting the REDI loan interest rate to be competitive

and turn-over the microloan program to preapproved SBA banks which allows GOED to take a side-by-side position with the bank. GOED has bills proposed this legislative session that address potential additions for FY2012. Some of the new additions include – large project development fund, surplus property to recapitalize the REDI loan, aviation liability, and ethanol incentive payment.

Senator Peters asked about the FY2012 budget for the Future Fund. **Ms. Marty Davis**, Finance Officer, responded that the GOED has about \$7.8 million in other fund authority for the Future Fund. Within GOED, there is a separate center that GOED does have authority for the Future Fund.

Senator Heineman asked about the funding for the Research Centers. **Mr. Mel Ustad**, Director of Research and Commercialization, informed the committee that five research centers currently receive funding through the program based on a five-year commitment. The Research and Commercialization Council oversees the programs, but they would either need an across the board cut or a reduction in the funding for the two years remaining in the commitment. That would result in delaying investments in future centers for a year.

Senator Peters requested that the GOED provide detailed information for the Community Development Block Grant and the Future Fund including the individuals that have benefited from the grant.

Department of Tourism

Mr. Jim Hagen, Secretary of the Department of Tourism, introduced the staff members present at the meeting – **Ms. Marty Davis**, Finance Officer; **Mr. Michael Pangburn**, Director of the South Dakota Arts Council, **Mr. Jay Vogt**, Director of the State Historical Society; **Ms. Wanda Goodman**, Director of Media and Public Relations; and **Mr. Kirk Hulstein**, Director of E-Commerce and Research.

Distributed was a document department's FY2012 budget request. (**Document #8**)

For FY2012, the Governor recommends a budget of \$18,701,878; comprised of \$1,675,254 in general funds, \$1,742,457 in federal fund expenditure authority, and \$15,284,167 in other fund expenditure authority; and 72.0 FTEs. This is a decrease of \$348,403 (17.2%) in general funds, an increase of \$128,005 in federal fund expenditure authority, an increase of \$309,122 in other fund expenditure authority, and an increase of 2.2 FTEs from FY2011.

Office of the Arts - The recommended budget for FY2012 is \$1,660,376; an increase of \$130,334 from FY2011. This recommendation includes:

- A decrease in other fund expenditure authority of \$803 for contractual services regarding central services and space billings; and
- An increase in federal fund expenditure authority of \$131,137 in grants and subsidies regarding additional grants received from the national endowment for the Arts.

Office of Tourism - The recommended budget for FY2012 is \$11,933,978 and 25.0 FTEs; an increase of \$99,414 and 2.2 FTEs from FY2011. This recommendation includes:

- An increase in other fund expenditure authority of \$113,813 for personal services and 2.2 FTEs regarding the shared creative division positions with Economic Development by changing the funding distribution percentage based on services needed; and
- A decrease in other fund expenditure authority of \$14,399 for contractual services regarding central services and space billings.

Mr. Hagen explained the creative staff changes and the Department of Tourism taking the FTEs. Before the personnel services were distributed between the Department of Tourism and GOED. The Gaming and Promotion Tax receipts will be used to cover increase in cost to tourism for taking on the additional FTEs. This will result in available general funds in GOED.

Office of History - The recommended budget for FY2012 is \$5,107,524; a decrease of \$141,024 from FY2011. This recommendation includes:

- A decrease in general fund expenditure authority of \$185,299 and an increase in other fund expenditure authority of \$185,299 for personal services. This is a funding swap regarding personal services for the Cultural Heritage Center Museum and will be paid from gross receipts tax;
- A decrease in general fund expenditure authority of \$14,800 for personal services. This pertains to the South Dakota State Historical Society Board of Trustees meeting and elimination of funding for interns;
- A reduction of \$1,291 in general funds for travel regarding the South Dakota State Historical Society Board of Trustees for travel;
- A reduction of \$70,478 in general fund expenditure authority and an increase in other fund expenditure authority of \$11,450 for contractual services. This involves general fund authority decreases for advertising & marketing, archives, research, and matching funds for the historic preservation grant that will be matched by other resources in FY2012. The increase in other fund authority involves a funding swap for the Cultural Heritage Center Museum and will be paid from gross receipts tax instead of by general fund authority;
- A reduction of \$35,434 in general funds and an increase of \$17,251 in other funds for supplies and materials. This involves general fund authority decreases for various items regarding the Cultural Heritage Center as well as matching funds in the Historic Preservation Center grant that will be matched by other resources in FY2012. The increase in other fund authority involves a funding swap for the Cultural Heritage Center

Museum and will be paid from gross receipts tax instead of by general fund authority;

- A reduction of \$5,000 in general funds for capital outlay as it pertains to the museum, research, and archive programs in the Cultural Heritage Center;; and
- A decrease in general fund expenditure authority of \$36,101, in federal fund expenditure authority of \$3,132, and in other fund expenditure authority of \$3,489 for contractual services regarding state computer services, central services, and space billings.

Senator Sutton asked about the various methods the department uses to advertise. Mr. Hagen responded that research shows the bulk of South Dakota visitors come from Minnesota, Nebraska, and Wisconsin. The majority of the tourism advertisements occur during the peak season months in the summer. The department utilizes advertisements in major magazines, newspapers, television, radio, and on the internet.

Senator Peters asked about the history and funding for the Challenge Grants. Mr. Hagen said that House Bill 1072 during the 2009 session, established the half penny promotion tax for tourism and that is to sunset on June 30, 2011. House Bill 1248 this legislative session would remove the sunset clause and make the tax permanent. The tourism tax rate increased from 1% to 1.5%; which amounts to an additional 50 cents for every \$100 dollars.

Ms. Davis stated that the Department of Tourism started to receive the additional 0.5% tax in FY2010. Since the additional tax went into effect on July 1, 2010, the department did not receive revenue for the tax for the first couple months. Revenue from the additional tourism tax was received in 2010. The department continued to receive the promotion tax for gross receipts tax in FY2011. There was a base budget level estimating that the 0.5% would come in at - \$2 million for tourism, \$670,000 for arts, and about \$300,000 for archeological research center. That authority is in the FY2011 and FY2012 base budget.

Mr. Davis commented that the reduction of \$348,000 for Cultural Affairs is in alignment with the 10% overall general fund cut with the department. Along with that, the funding swap of \$214,000 in general funds for museum is being swapped with funding from the gross receipts tax. The \$134,000 is a true cut to the budget.

Representative Wismer asked if the gross receipts tax is generating more revenue than projected. Ms. Davis said that the department estimated that the FY2012 gross receipts tax will be higher than last year's estimates by \$214,000. Therefore the department will be able to reduce the general funds and replace with the revenue from the gross receipts tax.

Senator Novstrup asked if the funding of the Cultural Heritage Center fits the definition for funding the promotion of tourism in the state. Mr. Costello stated that he visited with members of the visitors' alliance about funding the Cultural Heritage Center with the tourism tax. They

agreed that if the estimated revenue was generated, the department could use the proceeds to fund the Cultural Heritage Center.

MOTION: TO APPROVE THE MINUTES OF JANUARY 20, 2011

Moved by: Rampelberg
Second by: Dryden
Action: Prevailed by voice vote.

MOTION: ADJOURN

Moved by: Haverly
Second by: Rampelberg
Action: Prevailed by voice vote.

Barb Bjorneberg and Lisa Shafer
Committee Secretary

Dean Wink, Chair